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# INFORMATION REPORT

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25X1A

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1. The overall export quota for Land Saxony for the second quarter of 1948 as prepared by the Administration for Foreign Trade was about ten million marks, assigned as follows: 5.5 million RM for the textile industry (2.2 million RM for women's stockings, 3.3 for other textiles), two million RM for machines and tools, and 2.5 million RM for leather, paper, and other products.

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**Comment:** This is a great drop from the 1947 quarterly figures which were usually between twenty and thirty million RM. The primary reason for the reduction is lack of raw materials; even for the present small figure, it will be difficult to find enough supplies.

2. Exporters believe that SMA is gradually eliminating the Foreign Trade Administration quota system, since a new method of assigning production has been introduced. The SMA assigns production quotas to certain approved export firms, and on the basis of the assignment the firm applies for the necessary raw materials. First samples of each product are submitted to SMA Foreign and Interzonal Trade Division and, if approved, are released for the export quota. If not approved, they must be offered to the Sächsisches Industrie Kontor (SIK), which normally provides raw materials and distributes production for the internal market. SIK may dispose of the product either in the Russian Zone or under Order No. 234.
3. In effect, the process as seen by the export firm is as follows:
  - a. A knitting mill produces a quantity of men's socks for the export market.
  - b. The mill reports the quantity produced and sends a sample to the export firm.
  - c. The export firm reports the quantity produced and forwards a sample to SMA Foreign and Interzonal Trade Division (in Dresden, for Saxony).
  - d. SMA decides whether the socks are of export quality and sets an export price.

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- e. If the socks are for export, the export company must offer them to the Soviet export companies Export-Import and Ruano-Export and may offer them to foreign buyers. The producer can also seek a foreign purchaser.
  - f. If the Soviet companies do not purchase the socks (paying for them in marks or charging them off to reparations), and either the exporter or producer finds a buyer, a tentative bill of sale is drawn up. All questions of export prices must be referred to SMA, and the tentative sale must be submitted for approval to the Export-Import Company (GmbH) of Saxony and for clearance to SMA.
  - g. If the sale is approved, the buyer pays the price to the Garantie-und Kreditbank, which then pays the producer or exporter in marks. SMA receives the foreign exchange credit.
  4. As a result of this process, some of the goods assigned to export quotas are diverted and quotas are not met. Exporters feel that the next step will be to eliminate the Foreign Trade quota and permit export firms to request raw material allocations only when they can present export contracts from foreign buyers. Moreover, goods rejected for export by SMA are to be in future offered to Soviet satellite countries, largely for propaganda reasons, according to source, since the USSR derives no foreign exchange profit from such sales. Export firms can negotiate only with hard currency countries.
  5. Before May 1948, producers turned over their goods immediately after manufacture to exporters and were paid at once. This, however, resulted in credit difficulties for exporters and finally forced their liquidation or nationalization. (The last firm to hold out against the pressure tactics used to encourage nationalization, Futing and Co., finally succumbed and permitted a contract for fifty-one per cent state participation in June 1948.) Since May, the producer has been forced to hold his goods until a buyer was found, thus tying up his capital, and to pack them for export at his own expense, a responsibility formerly handled by the export company. These measures are regarded as steps in forcing producers into debt and hastening nationalization of firms.
- 25X1A ~~CONFIDENTIAL~~ Comment: The nationalization of Futing & Co. was reported by another source in mid-June 1948. Preliminary measures and handling of other firms were discussed in a previous report.
6. Colonel Chernov, chief of the Foreign and Interzonal Trade Division of SMA Saxony, was recalled to Moscow on 25 May 1948, and his family was returned to the USSR in haste shortly afterward. Chernov's driver and other employees were questioned on his movements and contacts. No reason for his recall was known, but source comments that he was a moderate Communist and, in the interest of better business, defended private German firms against nationalization pressure.

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